

## Message Text

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PAGE 01 BERN 01141 160751Z

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SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF MARCH 7-13

1. SUMMARY: THE PROBLEMS OF THE POUND HAD LITTLE  
EFFECT ON THE ZURICH MARKETS, AND THE DOLLAR AND GOLD  
WERE RELATIVELY STEADY IN QUIET TRADING. SWISS INTEREST  
RATES CONTINUE TO DECLINE. ACCORDING TO HANS MAST,  
GOVERNMENT RESTRICTIONS ON CAPITAL INFLOWS HAVE REDUCED  
SWITZERLAND'S RELATIVE PARTICIPATION IN INTERNATIONAL  
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PAGE 02 BERN 01141 160751Z

CAPITAL MARKETS. THE CONFEDERATION CLOSED ITS 1975

BUDGET ACCOUNTS WITH A DEFICIT ALMOST THREE TIMES LARGER THAN ORIGINALLY PROJECTED. A NATIONAL REFERENDUM ON MARCH 21 WILL CONSIDER A CONSTITUTIONAL INITIATIVE TO REPLACE CANTONAL TAXES WITH A UNIFORM NATIONAL TAX SYSTEM. CONSUMER PRICES FELL SLIGHTLY IN FEBRUARY WHILE WHOLESALE PRICES RECORDED A MODEST INCREASE. A PUBLIC OPINION SURVEY SHOWS THE SWISS ARE OPTIMISTIC ABOUT THEIR ECONOMY. THE LABOR PEACE CONTINUED UNDISTURBED IN SWITZERLAND DURING 1975.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: DESPITE THE PROBLEMS OF THE POUND, THE ZURICH FOREIGN-EXCHANGE AND GOLD MARKETS WERE QUIET ALL WEEK, THE DOLLAR FLUCTUATED IN A NARROW RANGE AROUND SF 2.58 AND GOLD STAYED NEAR \$133.00. RATES AS FOLLOWS:

|                              | 3/8(OPEN) | 3/12(CLOSE) |
|------------------------------|-----------|-------------|
| SPOT DOLLAR                  | SF 2.5800 | SF 2.5860   |
| FORWARD DISCOUNTS (PCT.P.A.) |           |             |
| ONE MONTH                    | - 4.0     | - 4.2       |
| 2 MONTHS                     | - 3.9     | - 3.9       |
| 3 MONTHS                     | - 3.9     | - 4.0       |
| 6 MONTHS                     | - 4.0     | - 4.0       |
| 12 MONTHS                    | - 3.7     | - 3.7       |
| SF/DM                        | SF 100.65 | SF 100.19   |
| GOLD                         | \$ 133.25 | \$ 133.00   |

3. MONEY AND CAPITAL MARKETS: THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT THROUGHOUT THE WEEK. EFFECTIVE MARCH 15 THE MAJOR SWISS BANKS WILL REDUCE THEIR PRIVATE DISCOUNT RATE FOR FIRST CLASS COMMERCIAL PAPER FROM 5.0 TO 4.5 PERCENT. TURNOVER ON SWISS STOCK EXCHANGES WAS RELATIVELY HIGH, AND THE SKA INDEX OF AVERAGE PRICES ROSE FROM 210.6 (END 1959 EQUALS 100) LAST FRIDAY TO 212.2 ON MARCH 12. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS DROPPED FROM 5.27 PERCENT ON MARCH 5 TO 5.18 PERCENT ON MARCH 12.

4. INTERNATIONAL CAPITAL MARKETS: DR. HANS MAST OF THE SWISS CREDIT BANK HAS PRESENTED A PAPER CONTAINING UNCLASSIFIED

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PAGE 03 BERN 01141 160751Z

THE ESTIMATE THAT THE SHARE OF NEW EUROBONDS PLACED THROUGH SWITZERLAND FELL FROM OVER ONE-HALF OF ALL PLACEMENTS IN THE MID-1960'S TO SLIGHTLY MORE THAN ONE-THIRD NOW. ALTHOUGH THE TOTAL OF FOREIGN PUBLIC BORROWING IN SWITZERLAND DURING 1975 WAS WELL ABOVE THE LEVEL OF THE PREVIOUS YEAR, IT WAS LESS THAN THE AMOUNTS BORROWED IN 1972 AND 1973. MOST ATTRIBUTED THIS DECLINE IN SWITZERLAND'S SHARE OF THE INTERNATIONAL

CAPITAL MARKET TO GOS EFFORTS TO CONTROL CAPITAL INFLOWS.

5. TAX REFERENDUM: IN A NATIONAL REFERENDUM TO BE HELD MARCH 21, THE SWISS PEOPLE, AMONG OTHER THINGS, WILL VOTE ON A CONSTITUTIONAL INITIATIVE LAUNCHED BY THE CONSUMER-ORIENTED INDEPENDENT PARTY (LANDESRING) AIMED AT STANDARDIZING THE SWISS TAX SYSTEM. IF APPROVED, THE INITIATIVE WOULD REPLACE THE INDIVIDUAL CANTONAL TAXES WHICH VARY GREATLY, BY A UNIFORM NATIONAL TAX. CANTONAL REVENUES WOULD BE PROVIDED BY THE FEDERAL GOVERNMENT THROUGH A REVENUE SHARING SCHEME, BUT THE MUNICIPALITIES WOULD STILL BE ALLOWED TO LEVY THEIR OWN TAXES. THE INITIATIVE WOULD ALSO STANDARDIZE INHERITANCE AND GIFT TAXES, AND WOULD LEVY A NATION WIDE TAX ON ALCOHOL AND ELECTRICITY CONSUMPTION. APPROVAL OF THIS INITIATIVE WOULD RESULT IN A SIGNIFICANT SHIFT OF POWER FROM THE CANTONS TO THE FEDERAL GOVERNMENT. MOST OBSERVERS BELIEVE THE SWISS VOTERS ARE NOT READY FOR SUCH A CENTRALIZATION OF TAX POWER AND THAT THE INITIATIVE WILL BE VOTED DOWN.

ECONOMIC

6. 1975 BUDGET ACCOUNTS CLOSED: AS SHOWN BELOW, THE CONFEDERATION'S ACTUAL BUDGET ACCOUNTS FOR 1975 CLOSED WITH A DEFICIT CONSIDERABLY GREATER THAN PROVIDED FOR IN THE BUDGET APPROVED BY PARLIAMENT LAST FEBRUARY (BERN A-55, 3/11/75). THE GREATER THAN EXPECTED DEFICIT WAS DUE PRIMARILY TO A RECESSION INDUCED SHORTFALL IN TAX REVENUES (BERN 0718). THE DEFICIT IS EQUIVALENT TO APPROXIMATELY 9.7 PERCENT OF EXPENDITURES AND 0.9 PERCENT OF 1975 GNP. THIS IS THE THIRD YEAR IN A ROW THAT THE ACTUAL DEFICIT HAS

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PAGE 04 BERN 01141 160751Z

GREATLY EXCEEDED BUDGET ESTIMATES.

|                               | BUDGET | ACTUAL | DIFFERENCE |
|-------------------------------|--------|--------|------------|
| (IN MILLIONS OF SWISS FRANCS) |        |        |            |
| REVENUES                      | 12,908 | 12,232 | DOWN 676   |
| EXPENDITURES                  | 13,366 | 13,541 | UP 175     |
| DEFICIT                       | 458    | 1,309  | UP 851     |

7. CONSUMER AND WHOLESALE PRICES: THE INDEX OF CONSUMER PRICES DECLINED 0.1 PERCENT IN FEBRUARY TO REACH 165.8 (SEPTEMBER 1966 EQUALS 100) AT THE END OF THE MONTH. SINCE THE PREVIOUS FEBRUARY, THE CONSUMER PRICE INDEX HAS RISEN 3.0 PERCENT. DURING FEBRUARY THE WHOLESALE PRICE INDEX ROSE 0.2 PERCENT TO 146.4 (1963 EQUALS 100), THE FIRST MONTHLY INCREASE SINCE LAST AUGUST. ON A YEAR-TO-YEAR BASIS, THE WHOLESALE INDEX HAS DECLINED

3.8 PERCENT.

8. SWISS OPTIMISTIC: A SURVEY CONDUCTED BY THE SWISS VOLKSBANK AND A PUBLIC OPINION GROUP SHOWS THAT 90 PERCENT OF THE PEOPLE QUESTIONED BELIEVE THE SWISS ECONOMIC SITUATION IS AVERAGE OR BETTER. ONLY 8 PERCENT OF THOSE QUESTIONED IN FRENCH-SPEAKING SWITZERLAND AND 5 PERCENT IN THE GERMAN-SPEAKING PART OF THE COUNTRY THOUGHT THE SITUATION WAS BAD. MOST SWISS EXPECT AN ECONOMIC RECOVERY IN 1976 WITH A CONTINUED LOW RATE OF INFLATION.

9. LABOR: IN 1975 A TOTAL OF 1,733 WORKING DAYS WERE LOST DUE TO LABOR DISPUTES IN SWITZERLAND, WITH ONLY 323 EMPLOYEES INVOLVED. IN THE PERIOD 1956/75, THE AVERAGE ANNUAL NUMBER OF MAN DAYS LOST THROUGH LABOR DISPUTES WAS ONLY ABOUT 5,000.  
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